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INFO ALL EC CAPITALS

C O N F I D E N T I A L SECTION 01 OF 04 BRUSSELS 13856

USEEC

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E.O.11652:GDS

TAGS: EFIN, EEC

SUBJECT: EUROPEAN MONETARY SYSTEM: US INTERESTS

REF: (A) BRUSSELS 13677, (B) BRUSSELS 13693
(C) BREMEN 412, (D) BRUSSELS 8621

1. SUMMARY: IN MISSION'S VIEW, THE RECENTLY PROPOSED EUROPEAN MONETARY SYSTEM COULD PROVIDE SOME OF THE SAME BENEFITS THAT WOULD FOLLOW FROM FULL MONETARY UNION - IMPROVED PAYMENTS ADJUSTMENT, MORE EXCHANGE-RATE STABILITY, IMPROVED EUROPEAN ECONOMIC PERFORMANCE. THIS ASSUMES THAT THE SPECIFIC PROVISIONS AND OPERATING PROCEDURES WILL ADD UP TO AN EFFICIENT AND DURABLE SYSTEM. THE ESTABLISHMENT OF THE EMS COULD ALSO HAVE IMPORTANT EFFECTS ON THE INTERNATIONAL ROLE OF THE DOLLAR AND EVOLUTION OF THE INTERNATIONAL MONETARY SYSTEM. END SUMMARY.

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2. REFS A AND B PROVIDED MISSION ANALYSIS OF PROPOSED EUROPEAN MONETARY SYSTEM (EMS) AS OUTLINED AT THE EUROPEAN COUNCIL IN BREMEN (REF C). IN THIS MESSAGE WE OFFER OUR VIEWS ON THE IMPACT THAT IMPLEMENTATION OF SUCH A SYSTEM WOULD HAVE ON US INTERESTS.

EUROPEAN MONETARY UNION

3. REF D REFERRED TO MISSION'S REASONS FOR BELIEVING THAT US SHOULD SUPPORT THE ULTIMATE OBJECTIVE OF EUROPEAN MONETARY UNION. THESE REASONS ARE BOTH POLITICAL AND ECONOMIC. EUROPEAN MONETARY UNION IS A KEY PART OF THE POLITICAL AND ECONOMIC UNITY WE HAVE CONSISTENTLY SUPPORTED IN THE INTEREST OF HAVING A STRONG AND STABLE PARTNER IN GLOBAL POLITICAL, ECONOMIC AND SECURITY CONTEXTS - A PARTNER WITH WHOM WE SHARE A COMMON HERITAGE AND SIMILAR CULTURE, VALUES AND OUTLOOK.

4. WE ALSO BELIEVE THAT EUROPEAN MONETARY UNION WOULD PROVIDE IMPORTANT ECONOMIC BENEFITS TO THE UNITED STATES. FIRST, IT SHOULD BRING A MORE VIGOROUS AND STABLE EUROPEAN ECONOMY. WITH EXCHANGE-RATE UNCERTAINTIES ELIMINATED, A MORE UNIFIED MARKET COULD SERVE AS A CATALYST TO PROMOTE INVESTMENT. DEMAND MANAGEMENT POLICIES COULD OPERATE MORE EFFECTIVELY IN A LARGER UNIT WITHOUT THE EXTERNAL CONSTRAINTS AND HINDRANCES OF EXCHANGE-RATE INSTABILITY AMONG OPEN AND HIGHLY INTEGRATED ECONOMIES.

5. SECOND, A MORE EFFICIENT AND SMOOTHLY OPERATING WORLD MONETARY SYSTEM SHOULD RESULT. ECONOMIC THEORY AND EXPERIENCE GIVES US EVERY REASON TO EXPECT THE EXCHANGE-RATE VARIANCE BETWEEN THE DOLLAR AND A CONSOLIDATED

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EUROPEAN MONETARY UNIT WOULD BE LESS THAN ITS VARIANCE WITH RESPECT TO INDIVIDUAL CURRENCIES. BASICALLY MARKET-DETERMINED, FLEXIBLE EXCHANGE RATES COULD WORK MORE EFFECTIVELY THROUGH BEING APPLIED AMONG APPROPRIATELY SIZED ECONOMIC UNITS.

6. SUCH DEVELOPMENTS WOULD PROVIDE A MORE VIGOROUSLY EXPANDING MARKET FOR US EXPORTS, HELPING TO STRENGTHEN THE DOLLAR AND EASE EXTERNAL CONSTRAINTS ON US ECONOMIC PERFORMANCE, WOULD HELP REDUCE PROTECTIONIST PRESSURES, AND WOULD GENERALLY PROMOTE GROWTH AND STABILITY OF THE WORLD ECONOMY.

THE CURRENT PROPOSAL FOR AN EMS

7. THE PROSPECTIVE EUROPEAN MONETARY SYSTEM CURRENTLY UNDER CONSIDERATION WOULD, IF IT WERE SUCCESSFULLY IMPLEMENTED AS RECENTLY OUTLINED IN BREMEN, BE A STEP - PERHAPS 25 PERCENT OF THE WAY - TOWARDS MONETARY UNION IN EUROPE. THIS IS ONE REASON FOR GIVING IT SUPPORT. BUT WE MUST ALSO CONSIDER WHAT THE CONSEQUENCES WILL BE FOR THE US OF LIVING WITH THIS INTERMEDIATE STAGE FOR AN

EXTENDED PERIOD - FOR FULL MONETARY UNION MUST STILL BE
CONSIDERED A LONG-RUN PROSPECTIVE. AND WE MUST ALSO
CONSIDER WHAT THE CONSEQUENCES WOULD BE IF AN ILL-DESIGNED
INTERMEDIATE SYSTEM WERE TO FAIL.

8. THE EMS WOULD ATTEMPT TO RE-ESTABLISH A KIND OF
BRETTON WOODS PARITY SYSTEM ON A REGIONAL BASIS,
BUTTRESED BY ADDITIONAL FINANCING PROVIDED THROUGH THE
EUROPEAN MONETARY COOPERATION FUND (EMCF). THIS FUND,
LATER TO BE CONVERTED INTO A "EUROPEAN MONETARY FUND,"
WOULD BE A KIND OF REGIONAL IMF (REFS A AND B).
INTENSIFIED ECONOMIC POLICY COORDINATION, AND (IF THE
BRITISH, ITALIANS, AND IRISH ARE SUCCESSFUL) SUBSTANTIALLY

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EXPANDED INTERNAL RESOURCE TRANSFER TO LESS PROSPEROUS
AREAS OF THE COMMUNITY, WOULD ALSO BE FEATURES OF THE
SYSTEM.

9. VARIOUS QUESTIONS COME QUICKLY TO MIND. WOULD SUCH
A SYSTEM PROMOTE WORLD EXCHANGE MARKET STABILITY OR
INCREASE INSTABILITY? HOW SUCCESSFUL WOULD THE SYSTEM
BE IN REDUCING OR ADJUSTING TO THE BASIC ECONOMIC
DIVERGENCES WHICH STILL PERSIST AMONG COMMUNITY MEMBER
STATES, AND IN WITHSTANDING THE EXCHANGE-MARKET PRESSURES
WHICH SEEM INEVITABLE? WHAT WOULD BE THE CONSEQUENCES

OF POSSIBLE FAILURE? WOULD THE INCREASED VOLUME OF INTERVENTIONS EFFECTIVELY THWART NEEDED GLOBAL PAYMENTS ADJUSTMENT, PARTICULARLY BETWEEN EUROPE AND THE UNITED STATES? HOW WOULD THE EMS INFLUENCE THE COURSE OF EUROPEAN DEMAND MANAGEMENT POLICIES AND EUROPEAN GROWTH? WOULD THE US SUFFER THROUGH POSSIBLE PARTIAL DISPLACEMENT OF THE DOLLAR IN ITS INTERNATIONAL ROLE? FINALLY, WHAT
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WOULD BE THE IMPLICATIONS FOR THE FUTURE EVOLUTION OF THE WORLD MONETARY SYSTEM?

MONETARY STABILITY AND ADJUSTMENT

10. EXTREME EXCHANGE-RATE VARIABILITY, PARTICULARLY BETWEEN THE EC AND THE DOLLAR, HAS DOUBTLESSLY HAMPERED EFFICIENT INTERNATIONAL TRANSACTIONS AND COMPLICATED STABILIZATION POLICIES. APART FROM THESE ADVERSE ECONOMIC EFFECTS, WE HAVE SEEN IN RECENT MONTHS HOW EXCESSIVE VARIABILITY CAN STRAIN US-EUROPEAN RELATIONS, GIVING RISE TO UNFAIR ACCUSATIONS OF PREDATORY MANIPULATION, STIMULATING PROTECTIONISM, AND STRAINING THE TRADE NEGOTIATIONS. MANY EUROPEANS HAVE BLAMED THE INSTABILITY OF THE DOLLAR

11. THE EMS, IT SEEMS TO US, WOULD DEFINITELY PROMOTE WORLD EXCHANGE MARKET STABILITY, IN PARTICULAR, STABILITY VIS-A-VIS THE DOLLAR, IF (AND THIS IS THE KEY QUESTION) IT IS A CREDIBLE AND DURABLE SYSTEM. ASSUMING THAT IT IS, THE BENEFITS TO WORLD MONETARY STABILITY WOULD FOLLOW FROM THE SAME KIND OF CONSIDERATIONS THAT LEAD US TO BELIEVE THAT A SINGLE EUROPEAN CURRENCY WOULD HAVE THESE BENEFITS. THE EMS ZONE WOULD BE CLOSER TO AN "OPTIMAL CURRENCY AREA," PROVIDING MORE EFFECTIVE ADJUSTMENT OF PAYMENTS IMBALANCES THROUGH EXCHANGE-RATE MOVEMENTS VIS-A-VIS THE OUTSIDE WORLD THAN CAN BE ACHIEVED BY INDIVIDUAL COUNTRIES WITHIN A HIGHLY INTEGRATED COMMUNITY. THIS FOLLOWS FROM THE LOWER RATIO OF EXTERNAL TRADE TO DOMESTIC PRODUCT (OR OF TRADEABLE GOODS TO DOMESTIC PRODUCT) AND THE REDUCED FEEDBACK FROM EXCHANGE-RATE CHANGES (PARTICULARLY DEPRECIATIONS) ON THE DOMESTIC PRICE AND WAGE STRUCTURE. IF EXCHANGE-RATE MOVEMENTS OPERATE MORE EFFECTIVELY TO EQUILIBRATE INTERNATIONAL PAYMENTS, THEY
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SHOULD ALSO TEND TO REDUCE WIDE RATE FLUCTUATIONS SINCE MARKET EXPECTATIONS OF THE MAGNITUDE OF CHANGES NEEDED TO

OFFSET DISEQUILIBRATING FACTORS WOULD BE REDUCED.

12. THE EMS WOULD TO A CONSIDERABLE EXTENT BRING THE SAME BENEFICIAL EFFECTS, ASSUMING THAT IT WILL BE SUCCESSFUL NOT ONLY IN SUPPRESSING SHORT-TERM INTRA-EUROPEAN EXCHANGE-RATE FLUCTUATIONS BUT ALSO IN REDUCING ECONOMIC DIVERGENCES (PARTICULARLY OF INFLATION RATES) AMONG PARTICIPATING COUNTRIES - THEREBY REDUCING THE NEED FOR EXCHANGE-RATE MOVEMENTS. THIS WOULD FOLLOW IN PART FROM SUCCESS IN SUPPRESSING VOLATILE EXCHANGE-RATE MOVEMENTS AND "OVERSHOOTING" WHICH AGGRAVATE DIVERGENT PRICE TRENDS, BUT WOULD ALSO REQUIRE GREATLY IMPROVED ECONOMIC POLICY COORDINATION.

DURABILITY

13. THIS FAVORABLE VERDICT ALSO PRESUPPOSES, OF COURSE, THAT THE SYSTEM IS DURABLE, WHICH WOULD AGAIN REQUIRE MUCH MORE EFFECTIVE ECONOMIC POLICY COORDINATION, PLUS ABUNDANT BALANCE OF PAYMENTS FINANCING AND ADEQUATE FLEXIBILITY TO ADJUST TO DIVERGENCES IN BASIC ECONOMIC TRENDS WHICH CANNOT BE AVOIDED.

14. THE PROPOSED "RESERVE POOLING" OPERATION THROUGH THE EMCF PROVIDES SUBSTANTIAL ADDITIONAL BALANCE OF PAYMENTS SUPPORT TO COUNTRIES PARTICIPATING IN THE EMS. HOWEVER, TOTAL ADDITIONAL CREDIT AVAILABILITIES PROVIDED BY THAT SYSTEM ARE LESS IMPRESSIVE THAN THE FIGURES OF \$25 OR \$50 BILLION THAT HAVE BEEN LOOSELY USED AFTER BREMEN. AS CALCULATED IN REF B, THE MAXIMUM ADDITIONAL CREDIT PROVIDED BY THE PROPOSED SYSTEM TO THE FIVE MOST LIKELY DEFICIT COUNTRIES COMBINED (ITALY, FRANCE, UK, IRELAND, AND DENMARK) WOULD AMOUNT TO ABOUT \$14 BILLION. THIS IS STILL QUITE SUBSTANTIAL COMPARED, SAY, TO CREDIT LINES

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AVAILABLE AT THE IMF, AND MUST BE CONSIDERED TOGETHER WITH OTHER AVAILABLE RESOURCES. EVEN SO, IF EXCHANGE MARKETS LOSE CONFIDENCE IN THE ABILITY OF, SAY, THE UK TO STAY WITHIN THE TIGHT EXCHANGE-RATE SYSTEM ENVISAGED, THE

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\$4 BILLION UK SHARE MIGHT NOT LAST LONG.

15. THE ABOVE CONSIDERATIONS GIVE CONSIDERABLE IMPORTANCE TO THE QUESTION OF WHETHER THE SYSTEM WILL BE SUFFICIENTLY FLEXIBLE TO WARD OFF EXCHANGE MARKET PRESSURES. THE PROSPECTIVE MARGINS (SEE REF A) ARE QUITE TIGHT, AND WOULD NOT PROVIDE VERY MUCH PROTECTION AGAINST SPECULATIVE ATTACK. THE GERMANS AND FRENCH SEEM UNLIKELY TO AGREE TO WIDER MARGINS AS A PERMANENT FEATURE OF THE SYSTEM, ALTHOUGH PROVISION FOR THIS WOULD BE ALLOWED FOR NON-SNAKE PARTICIPANTS DURING A LIMITED TRANSITIONAL PERIOD. HOW FLEXIBLE THE SYSTEM WILL BE WITH RESPECT TO CENTRAL RATE CHANGES IS LESS CLEAR. SOME SUCH FLEXIBILITY WOULD SEEM TO BE PARTICULARLY IMPORTANT IN VIEW OF THE PRACTICAL IMPOSSIBILITY OF SUPPRESSING ALL CONTINUING DIVERGENCES IN ECONOMIC TRENDS, AT LEAST IN THE NEAR TO MEDIUM TERM, EVEN WITH GREATLY IMPROVED POLICY COORDINATION. THE ONLY REFERENCE IN THE BREMEN TEXT - THE NEED
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FOR MUTUAL CONSENT - WOULD NOT SEEM TO PROMISE MUCH FLEXIBILITY, BUT DOES NOT NECESSARILY EXCLUDE IT EITHER. IT WILL CLEARLY BE AN IMPORTANT NEGOTIATING OBJECTIVE OF THE BRITISH AND PROBABLY THE ITALIANS AS WELL.

16. IN SUM, WHILE THE QUESTION OF DURABILITY OF THE SYSTEM IS IMPORTANT TO US INTERESTS, IT IS TOO EARLY TO ASSESS THE POTENTIAL DURABILITY OF THE SYSTEM. WE ASSUME, HOWEVER, THAT THE COMMUNITY MEMBER STATES WILL BE MUCH

CONCERNED WITH THIS DURING THE NEGOTIATIONS. THEY ARE ACUTELY AWARE THAT THEY CANNOT AFFORD TO FAIL YET AGAIN IN THE MONETARY AREA.

INCREASED INTERVENTION

17. ANOTHER IMPORTANT QUESTION FOR US INTERESTS IS WHETHER THE INCREASED INTERVENTION TO SUSTAIN THE EMS MIGHT TEND TO PRODUCE COUNTERPRODUCTIVE EXCHANGE-RATE MOVEMENTS OR THWART NEEDED PAYMENTS ADJUSTMENT BETWEEN EUROPE AND THE UNITED STATES. THIS HAS BEEN THE CASE ON SOME OCCASIONS IN THE PAST WITH EUROPEAN DOLLAR INTERVENTIONS. HOWEVER, IT APPEARS THAT THE REVERSE WILL BE TRUE, WITH A PRESUMPTION IN THE EMS IN FAVOR OF INTERVENTION IN COMMUNITY CURRENCIES (REF A). IT IS TRUE THAT DOLLAR INTERVENTION WOULD NOT BE RULED OUT IF CONSISTENT WITH A JOINTLY AGREED EUROPEAN DOLLAR POLICY, AND AN ILL-CONCEIVED DOLLAR POLICY WOULD BE HARMFUL. SOME DANGERS APPEAR TO HAVE BEEN AVERTED BY A EUROPEAN DECISION TO CLEARLY SEPARATE INTRA-EUROPEAN STABILITY AIMS FROM STABILITY VIS-A-VIS THIRD COUNTRIES IN THE CHOICE OF THE ECU AS CENTRAL RATE NUMERAIRE. MORE FUNDAMENTALLY, MOST EUROPEANS ARE FULLY AWARE THAT ANY DOLLAR POLICY MUST HAVE THE FULL COOPERATION OF THE US TO BE SUCCESSFUL.

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EUROPEAN ECONOMIC PERFORMANCE

18. ANOTHER MAJOR POTENTIAL ADVANTAGE TO THE US FROM THE EMS WOULD BE STRONGER EUROPEAN ECONOMIC PERFORMANCE, EXPANDING MARKETS FOR US EXPORTS, STRENGTHENING THE DOLLAR AND EASING BALANCE OF PAYMENTS CONSTRAINTS, AND REDUCING PROTECTIONIST PRESSURES. AS IN THE PREVIOUS DISCUSSION, THE REASONING IS ANALOGOUS TO THAT USED TO ARGUE THAT SIMILAR BENEFITS WOULD FLOW FROM FULL MONETARY UNION. AND AGAIN, THE CONCLUSION ALSO IS SUBJECT TO QUALIFICATIONS ABOUT HOW WELL THE SYSTEM WOULD WORK, AND HOW DURABLE IT WOULD BE.

19. ASSUMING AS BEFORE THAT THE EMS, AS FINALLY DESIGNED AND OPERATED, TURNS OUT TO BE EFFECTIVE AND DURABLE, THE REDUCTION OF EXCHANGE-RATE UNCERTAINTIES WITHIN THE EC SHOULD BRING WITH IT IMPROVED CONFIDENCE AND GREATER INVESTMENT, AS LONG-RUN PLANS FOR SELLING IN THE EC MARKET CAN BE MADE WITH MORE ASSURANCE.

20. ECONOMIC POLICY COULD ALSO OPERATE WITH LESS FEAR THAT MODERATE EXPANSIONARY POLICY COULD TRIGGER A SHARPLY DECLINING EXCHANGE RATE WITH INFLATIONARY FEEDBACK;

HOWEVER, THIS WOULD TEND TO BE COUNTERBALANCED BY FEAR
OF THE NEED TO EXPEND RESERVES OR BORROW HEAVILY TO
DEFEND EMS MARGINS. IN THIS RESPECT, BENEFITS FROM THE
EMS WOULD FALL WELL SHORT OF FULL MONETARY UNION, AND
COULD, IN FACT, BE NEGATIVE. THE NET EFFECT ON EUROPEAN
ECONOMIC MANAGEMENT WOULD DEPEND ON THE FINAL FORM OF THE
EMS - THE AMOUNT AND STRINGENCY OF CONDITIONS ATTACHED
TO CREDIT AVAILABILITY AND THE FLEXIBILITY AND CREDIBILITY
OF THE SYSTEM. IT WOULD ALSO DEPEND HEAVILY ON BRITISH
SUCCESS IN ACHIEVING TWO IMPORTANT NEGOTIATING GOALS:
TO DESIGN A SYSTEM THAT WOULD BE SYMMETRICAL IN TERMS OF
PRESSURES ON SURPLUS AND DEFICIT COUNTRIES TO TAKE
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CORRECTIVE ACTIONS, THUS AVOIDING POSSIBLE DEFLATIONARY
BIAS; AND THE IMPLEMENTATION OF GREATLY EXPANDED RESOURCE

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TRANSFERS TO THE WEAKER ECONOMIES OF THE COMMUNITY. THE
BREMEN OUTLINE OF THE SYSTEM CONTAINS A GENERAL BOW IN THE
DIRECTION OF SYMMETRY, ALTHOUGH NOTHING CONCRETE THAT

WOULD PROVIDE MUCH COMFORT TO THE BRITISH POSITION. (IN FACT, USING THE ECU AS PIVOT OF THE SYSTEM COULD MEAN THAT THE WEAKER CURRENCIES REACH THE MARGINS MORE QUICKLY THAN THE DM, SINCE THE LATTER HAS A LARGER WEIGHT IN THE ECU.) SUBSTANTIAL BENEFITS TO GLOBAL EQUILIBRIUM COULD FOLLOW IF LARGE-SCALE STRUCTURAL RESOURCE TRANSFERS BETWEEN GERMANY AND ITALY/IRELAND/UK MEANT THAT GERMANY COULD MAINTAIN A DEGREE OF EXPORT-ORIENTED EXPANSION BALANCED BY SUSTAINABLE CURRENT ACCOUNT DEFICITS IN OTHER PARTS OF THE COMMUNITY.

INTERNATIONAL ROLE OF THE DOLLAR

21. A POTENTIAL LONGER-TERM EFFECT OF THE IMPLEMENTATION OF AN EMS, AND EVENTUALLY FULL MONETARY UNION, COULD BE CONFIDENTIAL

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A SOMEWHAT REDUCED INTERNATIONAL ROLE FOR THE US DOLLAR IF THE ECU TAKES OVER SOME OF THIS ROLE, PARTICULARLY IN INTRA-EUROPEAN TRANSACTIONS. THERE WOULD CLEARLY BE NO DIRECT ADVERSE IMPACT ON US INTERESTS FROM THE IMPLEMENTATION OF THE PROPOSED SUBSTITUTION FACILITY IN THE EMCF AND THE REPLACEMENT OF DOLLARS BY ECU IN INTRA-EUROPEAN OFFICIAL SETTLEMENTS: DOLLARS WOULD NOT BE DUMPED ON MARKETS, BUT HELD BY A CENTRALIZED AUTHORITY. A CALM US ATTITUDE WOULD HELP FORESTALL ANY IRRATIONAL PSYCHOLOGICAL EFFECTS ON MARKETS.

22. IF THE ECU GAINS GREATER ACCEPTANCE, IT COULD CONCEIVABLY EVENTUALLY EXPAND ITS ROLE BEYOND THIS RESTRICTED CIRCUIT, POSSIBLY TO OTHER OFFICIAL AUTHORITIES AND TO PRIVATE HOLDERS. IT COULD FIND ACCEPTANCE IN USE IN INTERNATIONAL EUROPEAN TRANSACTIONS (PARTICULARLY IN OFFSHORE MARKETS) WHERE THE DOLLAR IS STILL USED TO AN EXTENT TOGETHER WITH EUROPEAN NATIONAL CURRENCIES. THIS DEVELOPMENT OF THE ECU (OR EUA) AS A "PARALLEL CURRENCY" HELD OUTSIDE OFFICIAL EUROPEAN AUTHORITIES COULD EVOLVE IN ANY CASE, BUT THE ESTABLISHMENT OF THE EMS WOULD PROBABLY GIVE IT ENCOURAGEMENT.

23. FURTHER ANALYSIS IS REQUIRED AND WOULD IN ANY CASE BE BEYOND THE SCOPE OF THIS MESSAGE. WE CONTENT OURSELVES WITH FOUR BRIEF COMMENTS: (1) THE US BANKING COMMUNITY IS UNLIKELY TO SUFFER SIGNIFICANTLY; US INTERNATIONAL BANKS CAN PROBABLY MAKE PROFITS JUST AS EASILY ON NON-DOLLAR DENOMINATED ASSETS AND LIABILITIES; (2) THE EXCHANGE-MARKET IMPACT IS ANALYTICALLY COMPLEX, INVOLVING, INTER-ALIA, THE EXTENT TO WHICH ATTRACTION TO THE ECU MIGHT DEFLECT DEMAND FROM THE DM (AS THE GERMANS HOPE) RATHER THAN FROM THE DOLLAR, AND SUPPLY REACTIONS IN THE

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EURO-DOLLAR MARKET; IN ANY CASE IT WOULD PROBABLY BE SPREAD OVER AN EXTENDED PERIOD; (3) BROADLY, BENEFITS TO THE US FROM THE INTERNATIONAL ROLE OF THE DOLLAR ARE NOT UNAMBIGUOUS (SEE, FOR EXAMPLE, WRITINGS OF C. FRED BERGSTEN); (4) FINALLY, THE INTERNATIONAL POSITION OF THE DOLLAR IS, IN ANY CASE, FAR MORE DEPENDENT ON SOUND US ECONOMIC POLICIES THAN ON THE ESTABLISHMENT OR NOT OF THE EMS.

WORLD MONETARY EVOLUTION

24. A FINAL AND VERY IMPORTANT CONSIDERATION FOR THE US IS THE INFLUENCE THE EMS WOULD HAVE ON THE FUTURE DEVELOPMENT OF THE WORLD MONETARY SYSTEM. WHILE WE DISCOUNT FEARS THAT ESTABLISHMENT OF THE EMS MIGHT BE AN OPENING WEDGE TOWARDS RE-ESTABLISHMENT OF A GLOBAL FIXED-RATE SYSTEM WITH ASSET SETTLEMENT PROVISIONS, UNACCEPTABLE TO THE UNITED STATES, WE CANNOT COMPLETELY DISCOUNT THE DANGER THAT THE DESIRED EVOLUTION OF THE IMF'S ROLE IN THE AREA OF EXCHANGE-RATE AND ECONOMIC POLICY SURVEILLANCE MIGHT BE HINDERED IF EUROPEANS LOOK MORE TO THEIR OWN INTERNAL BODIES FOR FINANCING, THE FORMULATION OF POLICY CONDITIONS, AND POLICY SURVEILLANCE. ON THE OTHER HAND, WE CAN PROBABLY DEPEND ON SOME MEMBER STATES (PARTICULARLY THE BRITISH, WHO ARE VERY SENSITIVE TO THIS POINT) TO KEEP THE COMMUNITY FROM NEGLECTING THE NECESSARY ROLE OF A GLOBAL SURVEILLANCE MECHANISM. PREVIOUS EXPERIENCE WITH SIMULTANEOUS FORMULATION AND SURVEILLANCE OF POLICY CONDITIONS FOR ITALY BY THE IMF AND EC DO NOT SUGGEST SERIOUS PROBLEMS IN THIS AREA. FINALLY, IN A LONGER-TERM PERSPECTIVE, AS PROGRESS TOWARDS EUROPEAN MONETARY UNION PROCEEDS, IT WILL BECOME MORE AND MORE APPROPRIATE FOR THE IMF TO CONSIDER THE EC AS A UNIT IN ITS SURVEILLANCE PROCEDURES. HINTON

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